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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

EA-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00 OPIC-03

LAB-04 SIL-01 DODE-00 PA-01 USIA-06 PRS-01 XMB-02

AGR-05 L-03 H-02 /120 W
---------- 073171
R 131423Z FEB 76
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC 7570
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY LUXEMBOURG
AMEMBASSY LONDON
USMISSION EC BRUSSELS
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 THE HAGUE 0782

E.O. 11652: GDS
TAGS: EFIN, ECON, NL
SUBJ: NETHELANDS ECONOMY GOING UNDERGROUND TO AVOID TAXES

1. SUMMARY: IN THE FACE OF THE HIGHEST RATES IN EUROPE FOR TAXES AND SOCIAL INSURANCE PREMIUM, AN EVER INCREASING PROPORTIO OF DUTCH ECONOMIC ACTIVITY MAY BE GOING UNDERGROUND. ESTIMATES VARY, BUT THIS HIDDEN MARKET MAY EXCEED 10 PERCENT (ABOUT $10 BILLION) OF THE OFFICIAL GNP. END SUMMARY.

2. EMBASSY CONVERSATIONS WITH BUSINESSMEN, GOVERNMENT OFFICIALS, AND ACADEMIC ECONOMISTS INDICATE A GROWNING DESIRE AND WILLINGNESS ON THE PART OF THE TRADITIONALLY LAW ABIDING DUTCHMAN TO EXCLUDE THE TAX COLLECTOR FROM HIS ECONOMIC ACTIVITIES. THE VALUE ADDED TAX ON MOST PRO-
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DUCTS IS NOW AT THE RATE OF 16 PERCENT, WITH AN INCREASE

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TO 18 PERCENT ONLY TEMPORARILY POSTPONED. INFLATION AND
A SHARPLY PROGRESSIVE INCOME TAX SUITED TO PRIME MINIS-
TER DEN UYLS INCOME REDISTRIBTION GOALS HAVE PUSHED
THE MIDDLE CLASS DUTCHMAN INTO THE 50 TO 75 PERCENT
INCOME TAX BRACKET. FINANCE MINISTRY EXPERTS ESTIMATE
THAT A 55 PERCENT TAXATION RATE IS THE POINT OF NO RETURN--
I.E. EACH ADDITIONAL DOLLAR OF TAX COLLECTED BY RAISING
THE RATE AT THAT POINT WILL BE EQUALLED BY A DOLLAR LOST
TO TAX EVASION. THESE PRESSURES APPEAR TO BE SQUEEZING
A GROWNING AMOUNT OF ECONOMIC ACTIVITY INTO A HIDDEN
MARKET--HIDDEN AT LEAST FROM THE TAX COLLECTORS. AS A RESULT,
THE GON HAS BEEN FORCED INCREASINGLY TO COVER ITS BUDGET NEEDS
FROM HIGHER EXCISES AND BORROWING.

3. THE FIRST RELIABLE INDICATIONS OF THE SCOPE OF THE
PROBLEM CAME IN A STUDY OF MONEY DEMAND BY SECTOR IN
THE NETHERLANDS AS OF 31 MAR 71, PREPARED BY J S
CRAMER OF THE INSTITUTE OF ECONOMETRICS AND ACTUARIAL
SCIENCES, UNIVERSITY OF AMSTERDAM. A STATISTICAL SURVEY
OF BANKNOT HOLDINGS BY THE POPULATION LEFT HFL 6
BILLION (ABOUT $2.25 BILLION AT TODAYS RATE), OR TWO THIRDS OF
THE CURRENCY ISSUD BY THE CENTRAL BANK, UNACCOUNTED FOR.
HOWEVER THE ONE THIRD OF THE CURRENCY ACCOUNTED FOR IN
THE STUDY LACED THE NETHERLANDS IN A MEDIAN POSITION
COMPARED TO OTHER DEVELOPED COUNTRIES REGARDING CURRENCY
HELD PER CAPITA. AUTOMATIC CHECKS BUILT INTO THE SURVEY
ELIMINATED THE POSSIBILITY OF ANY SUBSTANTIAL TECHNICAL
ERROR. DR. CRAMER AT THE TIME OFFERED ONLY A FEW
GENERALIZED SUSSGESTIONS OF WHERE RESEARCHERS MIGHT
LOOK FOR THE DISCREPANCY. THERE ARE SEVERAL POSSIBLE
EXPLANATIONS FOR PARTS OF THE MISSING CURRENCY, BUT A
HIDDEN (OR BLACK) MARKET MUST FIGURE SIGNIFICANTLY
IN ANY OF THEM. PROFESSOR CRAMER SUGGESTS THAT IT MAY
EXCEED 15 PERCENT OF GNP TODAY.

4. ACCORDING TO A SENIOR ECONOMIST AT THE CENTRAL
PLANNING BUREAU, THE GOVERNMENT IS CURRENTLY DOING
NOTHING TO ESTIMATE THE SCOPE OF THE HIDDEN MARKET IN
THE NETHERLANDS OR ITS IMPACT ON THE COUNTRY. IN
FACT, BY ITS VERYNATURE, IT WOULD BE PARTICULARLY
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ELUSIVE TO STATISTICAL ANALYSIS. NEVERTHELESS THIS
ECONOMIST WAS WILLING TO MAKE AN ESTIMATE OF THE SIZE
OF THE HIDDEN MARKET IN THE NETHERLANDS RELATIVE TO THE
REST OF THE GNP--BETWEEN 7 1/2 AND 10 PERCENT OF GNP
AND GROWING FAST. HE NOTED THAT THE RECESSION HAD BEEN
A PARTICULAR STIMULUS TO BLACK MARKET ACTIVITIES. PER-
VERSELY ECONOMIC RECOVERY MAY ALSO STIMULATE THE GROWTH
OF THE HIDDEN ECONOMY. MANY WORKERS NOW ON UNEMPLOYE-

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MENT ARE UNWILLING TO RISK LOSING THEIR BENEFITS FOR
WHAT MIGHT TURN OUT TO BE ONLY SHORT TERM EMPLOYMENT
AND WOULD FOR LOWER INCOME WORKERS OFFER ONLY A MAR-
GINAL IMPROVEMENT IN INCOME. THEY ARE THEREFORE TAKING
WORK AS BLACK DAY LABORERS. THIS IS, THER EARNINGS
ARE NOT REPORRTED TO THE FINANCE OR SOCIAL AFFAIRS
MINISTRIES FOR TAX PURPOSES. THE EMPLOYER CAN GAIN
FROM THIS PRACTICE BY NOT HAVING TO PAY SOCIAL SECURITY
PREMIUMS AND THE EMPLOYEE WINS BY RETAINING THIS BENE-
FITS AND AVOIDING INCOME TAX ON HIS WAGES.

5. THE BUSINESS COMMUNITY IS ALSO ACTIVE IN MAN-
EUVERING TO AVOID TAXES. THE GREATER NUMBER AND
COMPLEXITY OF BUSINESS TRANSACTIONS PROVIDE AMPLE
OPPORTUNITY TO ESCAPE THE TAX COLLECTOR. BUSINESS
MEN CLAIM THAT ANY BUSINESS PAYING ALL
ITS TAXES WOULD FIND 9 GUILDERS OUT OF TEN OF ITS PROFIT
FLOWING TO THE GOVERNMENT. AN APPARENTLY COMMON WAY BUSINESSES
HANDLE THE PROBLEM IS TO RUN THEIR OPERATIONS FROM A
DUMMY FIRM OUTSIDE THE NETHERLANDS. HIGH INTEREST
"LOAN" FROM THE SO CALLED FORIEGN FIRM AFFORD A TAX
WRITE OFF ON INTEREST AND AN EASY WAY TO MOVE PROFITS
OUT OF THE DUTCH TAX SYSTEM. LARGE MULTINATIONALS
HAVE A MULTITUDE OF SIMILAR OPTIONS OPEN TO THEM.
DUTCH ECONOMISTS SUGGEST THAT BUSINESS IS THE LARGEST
CONTRIBUTOR TO THE POOL OF "BLACK MONEY" IN THE NETHERLANDS.

6. THE POOL OF MONEY OUTSIDE THE REGULAR ECONOMY IS
ALSO FED BY FUNDS FROM ILLEGAL GAMBLING AND OTHER CRIME.
ALTHOUGH SLOT MACHINES ARE PROHIBITED, THERE ARE AN
ESTIMATED 17,000 IN THE NETHELANDS PRODUCING OVER
HFL 1 BILLION ($375 MILLION) PER YEAR IN INCOME.

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AGR-05 L-03 H-02 /120 W
---------- 073676
R 131423Z FEB 76
FM AMEMBASSY THE HAGUE
TO SECSTATE WASHDC 7571
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY LUXEMBOURG
AMEMBASSY LONDON
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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ILLEGAL CASINOS, OF WHICH THERE ARE OVER 400 SHOULD PRODUCE AT LEAST AS MUCH REVENUE. NARCOTICS TRAFFICKING AND OTHER CRIMINAL ACTIVITIES ALSO ADD TO THE FLOW OF MONEY INTO THE HIDDEN MARKET, THOUGH PROBABLY TO A MUCH SMALLER EXTENT.

7. WHEN ASKED HIS OPINION ON THE MATTER BY THE AMBASSADOR, FINANCE MINISTER DUISENBERG CALLED 6 BILLION GUILDERS A CONSERVATIVE ESTIMATE OF THE AMOUNT OF "BLACK" CURRENCY IN THE NETHERLANDS. (AN ANECDOTE CIRCULATING AMONG DUTCH ECONOMISTS HAS THE FINANCE MINISTER FIRST BECOMING AWARE OF THE BLACK MONEY PROBLEM WHEN HE SOUGHT BIDS FROM A CONTRACTOR FOR REMODELING HIS HOUSE. THE CONTRACTOR OFFERED TWO PRICES, ONE WITH, ONE WITHOUT A BILL. WITHOUT A BILL, THE AMOUNT WAS 16 PERCENT LESS--A SAVINGS EQUAL TO THE VALUE ADDED TAX.)
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8. THERE IS LITTLE OR NO OFFICIAL ACKNOWLEDGMENT OF THE PROBLEM ON THE PART OF GOVERNMENT OR THE BUREAUCRACY, BUT EMBASSY OFFICERS HAVE FOUND NEARLY EVERY OFFICIAL THEY HAVE SPOKEN TO WILLING TO OFFER EXAMPLES OF ILLEGAL TRANSACTIONS WHICH OFTEN SMACK OF PERSONAL EXPERIENCE. A PARLIAMENTARY SESSION SUGGESTING A MONETARY REFORM SIMILAR TO THAT FOLLOWING THE SECOND WORLD WAR BROUGHT FROM FINANCE MINISTER DUISENBERG A STATEMENT THAT THE PROBLEM WAS NOT OF SUFFICIENT SCOPE TO WARRANT SUCH ACTION. HE ADDED THAT EVEN IF IT WERE, THE GUILDER HAS BECOME AN INTERNATIONAL CURRENCY OF SOME IMPORTANCE SINCE THE POSTWAR REFORM, AND THE INTERNATIONAL REPERCUSSIONS WOULD PREVENT SUCH A REFORM TODAY. BANKERS, WHO ARE REPORTEDLY ABSORBING SOME FUNDS FROM HOLDERS OF LARGE QUANTITIES OF QUESTIONABLE CURRENCY WITH LOW-INTEREST CERTIFICATES OF DEPOSIT HAVE SUGGESTED THAT THE

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REASON THE GOVERNMENT WOULD NOT UNDERTAKE ANY MONETARY REFORM IS
THAT MOST FUNDS COULD BE READILY PROTECTED BY SLIPPING ABROAD.
IT IS PROBABLE THAT THE FINANCIAL INDUSTRY IN THE NETHERLANDS
IS MAKING HEALTHY PROFITS FROM THE ABSORBTION OF QUESTIONABLE
FUNDS AT LOW INTEREST (WE HAVE HEARD 1 PERCENT) AND RELOANING
THEM ON THE INTERNATIONAL MARKET AS "EUROGUILDERS". SUCH
ACITIVITY MIGHT
IN PART EXPLAIN THE PROSPERITY OF THE FINANCIAL SECTOR
IN THE OTHERWISE DISMAL DUTCH ECONOMY.

9. THE GOVERNMENT HAS MADE SOME TOKEN EFFORTS TO GATHER
IN THE REVENUES THAT ARE ESCAPING IT. THE REVENUE SER-
VICE RECENTLY HAS BEEN PARTICULARLY ACTIVE IN FINDING
YACHT AND VACATION TRAILER OWNERS TO PROVIDE SOME EVID-
ENCE OF THE SOURCE OF FUNDS USED IN PURCHASING THE
YACHT OR TRAILER, AND PROOF THAT THE VALUE ADDED TAX
WAS PAID. THESE TWO PRODUCTS HAVE ENJOYED A MAJOR BOOM
OUT OF ALL PROPORTION TO AFTER-TAX INCOME LEVELS OF THE
NEW OWNERS AND ARE THOUGHT TO BE A MAJOR OUTLET FOR FUNDS
OF DUBIOUS ORIGIN. HOWEVER, THIS APPROACH IS LIKELY
TO REACH ONLY A SMALL PORTION OF THE INCOME ESCAPING
THE TAX COLLECTOR.

10. COMMENT: DUTCHMEN FROM ALL PARTS OF THE POLITICAL
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SPECTRUM POINT WITH PRIDE TO THE CRADLE-TO-GRAVE SOCIAL
PROGRAMS IN THE NETHERLANDS, THE COSTS OF WHICH ARE
THE MAIN CAUSE OF THE HIGH TAXES. HOWEVER, THE ROBIN
HOOD STATE IS APPARENTLY BEGINNING TO LOOK MORE LIKE
ROBBING HOOD TO THE AVERAGE DUTCHMAN. THIS PER-
CEPTION CREATES A THREAT OF A SNOWBALLING TAXPAYERS' RE-
BELLION WHICH COULD FORCE A MAJOR RE-THINKING OF GOVERN-
MENT POLICY ON THE GROWTH OF THE COLLECTIVE SECTOR.
ALREADY THERE IS A COMMITMENT TO HOLD THE GROWTH OF
THE COLLECTIVE SECTOR AS A SHARE OF GNP TO ONE POINT PER
YEAR. EVEN THIS MILD RESTRAINT, IF IMPLEMENTED, WILL
FORCE SIGNIFICANT ADJUSTMENTS IN MANY GOVERNMENT PROGRAMS.
A SERIOUS EFFORT TO RESTRAIN THE GROWTH OF THE COLLECTIVE
SECTOR OR TO REVERSE IT WOULD NECESSITATE A MASSIVE
RESTRUCTURING OF GOVERNMENT SPENDING. SOME PET SOCIAL
PROGRAMS WOULD HAVE TO BE DISCARDED. IF THERE IS NOT
SOME RELIEF FROM THE GROWING TAX BURDEN, THE GOVERNMENT
IS BOUND TO LOSE MORE OF ITS ALREADY DWINDLING SUPPORT.
AS ONE DUTCHMAN PUT IT, "OUR HEARTS MAY BE ON THE LEFT,
BUT OUR POCKETBOOKS ARE ON THE RIGHT."

11. THE WIDESPREAD NATURE OF THE TAXPAYER REVOLT COULD BE
SAID TO REFLECT GROWING DISRESPECT FOR GOVERNMENTAL
AUTHORITY.

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AT LEAST IT REFLECTS A SEEMING PARADOX THAT PERMITS A
GREAT MANY DUTCH CITIZENS TO PLAY THE "GAME" OF TAX
EVASION WHILE ACCEPTING WELFARE BENEFITS AND SUPPORT-
ING A GOVERNMENT COALITION COMMITTED TO PROVIDING MORE
WELFARE. HOWEVER, BEFORE CONCLUDING THAT THE MORAL
FIBER OF THE DUTCH IS DISINTEGRATING, WE SHOULD RECORD
THAT, AS A LEADING DUTCH BANKER PUT IT TO THE AMBASSADOR,
"EXCEPT WHEN IT COMES TO MONEY WE DUTCH ARE STILL CALVINISTISTS."
END COMMENT.

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